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USDOC FOR 4231/ITA/OEENIS/NISD/CLUCYK  
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SUBJECT: UKRAINIAN GOVT RELAXES QUOTAS ON GRAIN EXPORTS

REFS: A) KYIV 1790

B) KYIV 1522

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11. (SBU) Summary: A September 26 GOU decision imposes new quota levels on grain exports as of November 1. The new quotas are significantly looser than the excessively restrictive ones currently in place, but still appear to be on the conservative side, especially since they cover a longer-than-expected period through March 31, 2008. The GOU considered adding edible oils to the list of restricted products but did not do so this time as a result of an informal agreement with industry. Grain traders are unsure how to proceed, as they do not want to undermine their opposition to export restrictions, yet want to encourage the GOU to at least use transparent methods if restrictions continue. The GOU has taken a relatively uncontroversial and temporizing step, leaving a harder, longer-term decision for the next government. End Summary.

12. (U) Minister of Economy Anatoliy Kinakh told the press on September 26 that the Cabinet of Ministers had issued a resolution revising the country's quotas on grain exports. (Note: As ref B reported, Cabinet of Ministers Resolution No. 844 reinstated limitations on grain exports as of July 1, after a drought in southern Ukraine reduced the 2007 grain harvest. The GOU had at that time authorized an export quota of only 3,000 tons, a mere token amount, for each of the principal types of grain. End note.) Kinakh reported that this latest Cabinet of Minister's resolution puts new, expanded quotas in place from November 1 to March 31, 2008 at the following levels:

- Corn - 600,000 tons;
- Barley - 400,000 tons;
- Feed Wheat - 200,000 tons; and
- Rye - 3,000 tons.

(Note: As of September 28, the resolution has not yet been officially published. End Note.)

Conservative Step in Right Direction

13. (U) The expansion of the quotas will allow exports to begin flowing again. Many of the large grain traders had expected these quota levels to be imposed for three months, not five, however, so the levels are more conservative than foreseen. Post estimates that the total quota of 1.2 million tons represents approximately 34

percent of what Ukraine can expect to export during the entire marketing year. (Note: The marketing year runs from July 1 to June 30. End note.)

#### Edible Oils Next?

14. (SBU) Industry representatives expressed concern during a September 25 meeting of the American Chamber of Commerce's (ACC) Agricultural Committee that the GOU was considering imposing quotas on edible oils as well after GOU officials had publicly announced that the CabMin was contemplating such a move to combat rising vegetable oil prices. The September 26 Cabinet of Ministers Resolution did not add edible oils to the list, however. U.S. firms Bunge and Cargill, both of which crush edible oils for export, told us that the Ministry of Agricultural Policy invited the country's main vegetable oil manufacturers to sign a memorandum of understanding regarding the short-term prospects of the vegetable oil market. In the MOU, the GOU promises not to impose export quotas on oils until at least December 31. In return, the industry gives vague promises to service the domestic market in a fair and orderly market. Both Andrzej Rozycki from Cargill and Dexter Frye from Bunge told us their companies agreed to sign the MOU after their lawyers confirmed that it imposed no binding commitments on industry, and in particular did not commit oil crushers not to raise prices. Rozycki and Frye said they believed the MOU was primarily a political tool that allowed the GOU to claim that it was taking a proactive stance against rising edible oil prices. Both also said their companies felt it would be politically unwise not to sign on to the MOU when all their major Ukrainian competitors had agreed to do so.

#### Grain Traders Unsure How to Proceed

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15. (SBU) Industry leaders present at the September 25 ACC meeting agreed that their overarching goal was to encourage Ukraine to shift from administrative to market measures in its approach to the agricultural sector. There was some disagreement, however, over how to respond to the export restrictions. While some continue to advocate complete elimination of quotas, several industry reps argued for the need to be practical. The GOU was not going to repeal export restrictions anytime soon, they said, so industry should encourage the government to follow international norms in using export quotas and to make the situation predictable. The Ukrainian Grain Association, which unites domestic grain traders, has already taken this approach; back in August it publicly recognized the need for quotas and urged the GOU to establish quota levels early on, in order to "guarantee a stable situation on the market." Ukrainian Agrarian Investments' Peter Thompson, who is also chairman of the ACC Agricultural Committee, suggested that the ACC should continue to lobby for elimination of the export restriction. If restrictions were to be used, however, the GOU should at least make them as transparent, fair, and predictable as possible.

16. (U) ACC meeting participants also commented that the GOU needed to make better use of a grain market intervention fund. The GOU had previously failed to offer a price above the market price for the fund's purchases, resorting instead to threats against grain producers, and the intervention was ineffective. (Note: Ref A reported on the motivations behind the GOU's policy, and outlined options for the GOU to develop a more market-friendly and less trade-distorting mechanism to achieve its goals, including a reformed intervention fund. End note.)

#### Comment: The Next Government's Problem

17. (SBU) The GOU is seeking to balance a number of interests in its grain policy, as no Ukrainian politician can bear rising bread prices in an election year, or images of grain rotting in ports, as occurred after the initial, surprise introduction of export restrictions. Deputy Minister of Economy Valeriy Pyatnytskiy in

July told members of Ukraine's WTO Working Party that Ukraine would eliminate the export restrictions by the time of WTO accession; this commitment is enshrined in the draft Working Party Report. Pyatnytskiy reaffirmed the GOU's intention to adhere to this commitment as recently as September 25 in a conversation with Econ Counselor. For now the GOU has put in place quotas that, while on the conservative side, at least placate the grain traders somewhat. It will be up to the new government that emerges following September 30 elections to determine how to proceed from there, with WTO commitments, fears of rising food prices, and industry concerns all playing a role. End comment.

TAYLOR